

Black Friday: Risks and Opportunities for UK Retailers



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You may have noticed from the emails flooding into your inbox (even in this post-GDPR world) that this Friday 23 November is “Black Friday”. The event, originating in the US, takes place the day after Thanksgiving and is now synonymous with heavy discounting by retailers, especially those online.

Less than a decade ago, this would have been an utterly unremarkable shopping day in the UK. The UK’s shoppers understood that, whilst the retailers were fiercely competing with each other to secure consumers’ spending in the run-up to Christmas, November and December were not months in which retailers would slash their prices as a means to generate sales. The UK public had to wait until Boxing Day for the retailers to cut prices in order to sell their excess Christmas stock, with the leading news story on Boxing Day often consisting of shoppers (both from the UK and overseas) flocking to the UK’s department stores to try to obtain the best bargains.

That changed with the increased adoption of Black Friday discounting by the UK’s retailers approximately five years ago, (although Amazon had offered UK consumers Black Friday deals from 2010). Black Friday firmly came on the UK’s radar in 2014, when the headlines featured shoppers at several UK supermarkets coming to blows in a bid to purchase heavily discounted televisions.

So what will be the effect of Black Friday on the retail sector in 2018, in the context of the current challenging market, with a number of well-known retailers releasing profit warnings and others proposing CVAs and/or entering administration? In recent years, Black Friday has undoubtedly had an impact on consumers' shopping habits during the key trading period prior to Christmas, meaning that retailers have had to react. The most obvious impact is that consumers are commencing their Christmas shopping earlier than was traditionally the case, with Black Friday increasingly being seen as the "starting gun" for the festive consumer season. The Office for National Statistics reported that retail spending in December 2017 was 1.5% lower than the previous month, which it attributed to the number of consumers who were commencing their Christmas shopping earlier, to take advantage of Black Friday discounts. This has meant that retailers have had to adopt to an additional bottleneck in consumer demand, in addition to the weeks immediately before and after Christmas. This presents retailers with additional logistical challenges; websites must be able to withstand the spike in user activity, retailers must have sufficient stock to take advantage of the increased demand and the delivery network needs to have sufficient capacity to cope with the increase in orders made over a small number of days. It also suggests that those retailers who do not trade successfully through the Black Friday period may be unlikely to make up the difference in December if customers are spending less in that month than in November.

The data also suggests that Black Friday will cause further pain for those retailers that have an underperforming online presence and an over-reliance on bricks and mortar stores, as the expectation is that consumers will conduct most of their Black Friday shopping online, as opposed to on the high street. The Springboard group, which collects footfall data on 4,500 retail locations across the UK, expects footfall on Black Friday 2018 to decrease in high street stores by 3.7% compared to Black Friday 2017 and by 2.7% over the weekend as a whole, whereas online activity is expected to increase by 4% versus the previous year.

Retailers are also faced with the decision of whether or not to discount for Black Friday at all, and if so, to what extent. In 2017, some well-known retailers chose not to participate, including M&S, Ikea, Asda and Primark. Retailers who do participate have to decide whether to slash margins in order to keep customers interested and try to secure their share of that consumer spend, or try to protect their margins but risk customers being enticed away by their competitors during a key trading period.

However, given that Black Friday falls a week earlier than usual this year, Springboard has suggested that this may negatively impact on consumers' spending, as many will only receive their wages the following week (being the last week of the month). In addition, it will be interesting to see whether consumers will be more cautious in getting caught up in the Black Friday hype this year, as various reports indicate that it may not be the best time of the year to secure the best deals. Which?, the consumer magazine, found that of the 94 products that they investigated, 87% were actually cheaper at other times of the year.

In any event, it is likely that retailers and their stakeholders will be keeping a keen eye on performance during the Black Friday weekend and the festive season, in what is a crucial period for retailers in this challenging and highly competitive sector.

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